Kier Group

Results for the year end 30 June 2019

19 September 2019

Andrew Davies

Chief Executive

Agenda

Overview	Andrew Davies, Chief Executive
Financial review	Bev Dew, Group Finance Director
Strategic progress and Outlook	Andrew Davies, Chief Executive

Overview

- Revenues maintained at £4.5bn
- Good performance by Building, revenues +6%
- Highways and Utilities experiencing contract delays and reduced volumes
- Infrastructure Services stable
- Solid order book, de-risked for HS2

Need for strategic action

- Underlying operating profit down
- Need to right-size the Group's cost base to expected volumes
- Focus on core activities of Construction and Infrastructure Services
- Exceptional charges taken to reshape the Group
- Sale of Living progressing well
- Focus on cash management

Financial update

Bev Dew, Group Finance Director

Financial summary

▪ Profit before exceptionals	£124m
▪ Exceptional charges[1]	£341m
– Future cash impairment	£32m
▪ Year end net debt (2018: £186m)	£167m
– Average monthly net debt (2018: £375m)	£422m
▪ Working capital movement	£182m[3]
– Reduction in supplier payment days from 57 to 41 [2]	

[1] Exceptional items including amortisation of acquired intangible assets.
[2] 1 January to 30 June 2019.
[3] Excluding pension deficit contributions.

Income statement before exceptionals

£m unless otherwise noted	30 June 2019	30 June 2018	Change
Revenue[1]	4,494	4,513	0%
Operating profit [2]			
Buildings *(Regional Building, Major Projects, International, Facilities Management)*	62	55	+13%
Infrastructure Services *(Highways, Utilities, Infrastructure, Kier Australia)*	56	95	-41%
Developments & Housing *(Residential, Property, Housing Maintenance, Environmental Services)*	56	72	-22%
Corporate	(50)	(35)	+43%
Profit before exceptionals	124	187	-34%
Profit margin[2]	*2.8%*	*4.2%*	
Net finance cost[2]	(27)	(23)	+17%
Tax	(20)	(28)	-29%
Profit after tax[2]	77	136	-44%
Basic earnings per share[2]	58.2p	136.8p	-57%
Dividend per share[3]	4.9p	69.0p	

[1] Group and share of joint ventures for continuing operations and pre-exceptionals.
[2] Arising on continuing operations stated before exceptional items.
[3] Interim dividend payment only for the year to 30 June 2019. Final dividend payment suspended.

Exceptional costs

- 2019 Exceptional charge £341m
- Non-cash charge £275m
- 2019 Cash outflow £34m
- Future year cashflows £32m

£m	FY19 Charge	Cash (outflow) / inflow FY19	Cash (outflow) / inflow 2020+
Restructuring charges including FPK	(56)	(45)	(11)
Cost incurred in disposal of operations or preparation for business divestment or closure	(172)	22	(29)
Amortisation of contract rights	(25)	-	-
Costs associated with previous acquisitions	(29)	(11)	(2)
Exceptional contract losses	(50)	-	-
Pensions and other	(9)	-	10
Total	**(341)**	**(34)**	**(32)**

Restructuring and FPK costs

£m	FY19 Charge	Cash (outflow) / inflow FY2020
Restructuring costs	(19)	(5)
FPK Costs	(20)	(6)
Fees & Other	(17)	-
Total	**(56)**	**(11)**

Costs relating to preparation for disposal

£m	FY19 Charge	Cash (outflow) / inflow FY2020+
Impairment of land	(50)	10
Impairment of software	(10)	-
Loss on disposal and associated fees	(6)	-
Exit cost Environmental Services	(35)	(22)
Facilities Management exit costs, impairment and other onerous contracts	(23)	(17)
Impairment of goodwill and other assets	(48)	-
Total	**(172)**	**(29)**

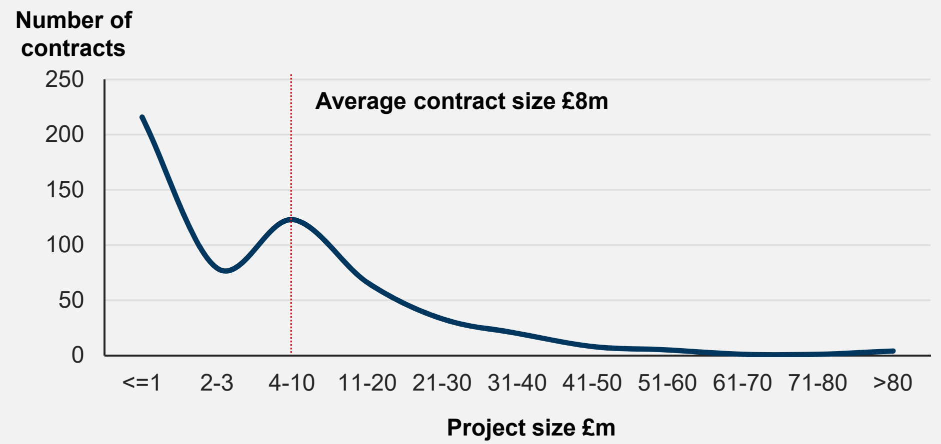
Buildings

Regional Building, Major Projects, Facilities Management, International

- Good performance in Regional Building
- Increased margins reflecting volumes
- Facilities Management being prepared for sale
- Strong forward order book
  - 95% committed 2020
- 65% of work on long-term frameworks

Construction (£m)	30 June 2019	30 June 2018	Change
Revenues	1,883	1,778	+6%
Operating profit	62	55	+13%
Operating margin	3.3%	3.1%	

Construction contract size distribution



Infrastructure Services

Highways, Utilities, Infrastructure

- Volume pressures in Highways
- Contract delays in Utilities awards
- Good performance in Infrastructure
  - Crossrail certificate of completion
  - Work continuing on Hinkley Point C & HS2
- Operating margin decline reflecting lower volumes in Highways and Utilities and mix
- Kier Australia sale completed
- Strong forward order book, 90% committed
  - Highways order book 100% revenues secured for 2020
  - Utilities order book 80% revenues committed 2020
- 80% of work on long-term frameworks

Infrastructure Services (£m)	30 June 2019	30 June 2018	Change
Revenues	1,671	1,733	-4%
Operating profit	56	95	-41%
Operating margin	3.4%	5.5%	

- FY2018 profit stated after reclassification of £27m contract losses to exceptional previously included in underlying operating profit

Developments & Housing

Residential, Property, Housing Maintenance, Environmental Services

- Revenue decreased due to reduced completions in Residential and delayed transactions in Property
- Operating margin decline based on decreased transaction levels
- Kier Living sale progressing well
- Selling customer contract in Environmental Services and preparing for exit in 2020
- Property in JVs + inventories = £185m

Developments & Housing (£m)	30 June 2019	30 June 2018	Change
Revenues	940	1,002	-6%
Operating profit	56	72	-22%

Residential	30 June 2019	30 June 2018	Change
Completions	1,926	2,042	-6%
Ave selling price[1]	£194,000	£183,000	+6%
NAV excl debt	£173m	£180m	-4%
ROCE	14%	15%	-1%

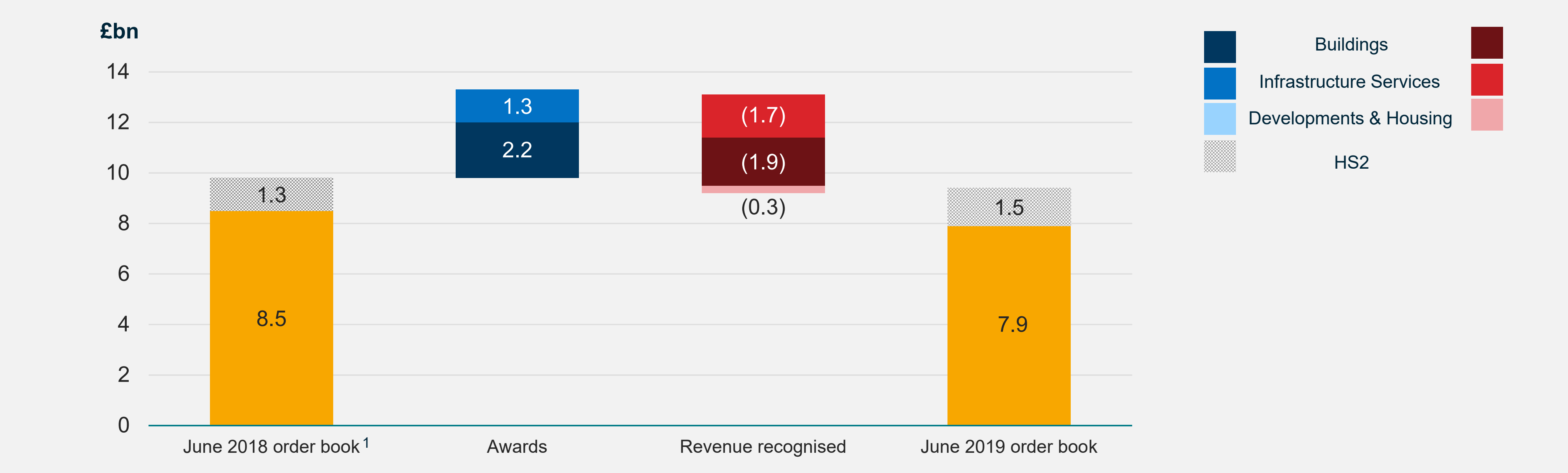
Property	30 June 2019	30 June 2018	Change
No. transactions	24	32	-25%
ROCE	18%	27%	-9%

[1] Per Property

Order book

Strong visibility of workload with 90% secured and probable

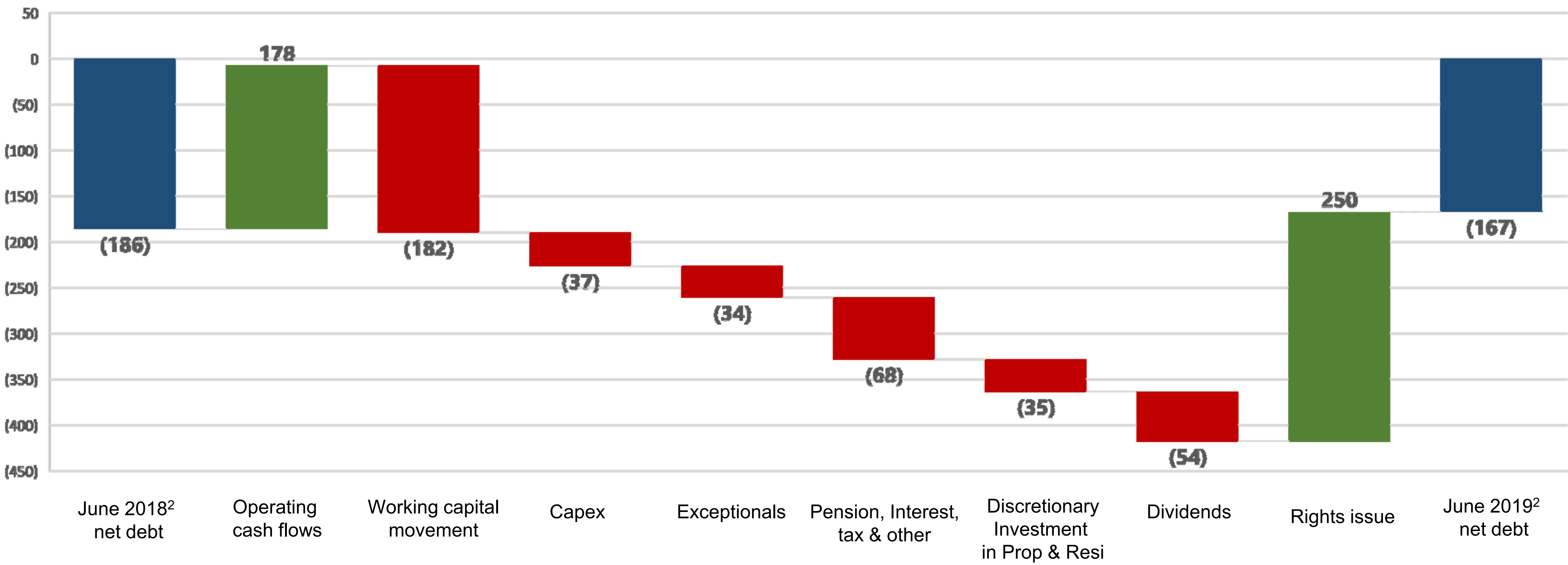
£bn	30 June 2018[1]	30 June 2019	Change
Buildings	3.7	4.1	+11%
Infrastructure Services	5.5	5.1	-9%
Developments & Housing	0.6	0.2	-67%
Total	**9.8**	**9.4**	**-4%**



[1]Restated to reflect the disposal of Kier Highways Services Australia; order book of £0.4bn

Group net debt movements

£m



[1] Cash conversion is calculated as operating cash flows before movements in working capital, plus dividends received from joint ventures, divided by underlying operating profit.
[2] Net debt is shown net of the impact of hedging instruments.

Committed financing facilities

Facility	£m	Maturity
Revolving Credit Facilities	670	2022
US Private Placement[1]	183	2019-2024
Schuldschein Loan Notes[1]	69	2019-2023
Total	922	

- Covenants: Net debt: EBITDA < 3x, Interest cover > 4x, Net worth > £252m
- Sufficient headroom to support monthly working capital requirements
- Supply chain finance £195 facility
  - Utilisation reduced to £170m (2018: £185m)
- Positive engagement will all stakeholders
  - Lenders
  - Surety suppliers
  - Trade credit suppliers
  - Pension funds

[1]£sterling post currency hedges.

Strategic progress

Andrew Davies, Chief Executive

Back to basics

Progressing Day 1 Strategic Imperatives:

- Simplify & focus Kier ✓
- Improve cash generation ✓
- Strengthen balance sheet ✓

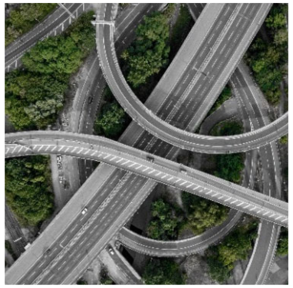
Strategic process:

- Strategic lens
- Cost base
- Performance Excellence
- Programme delivery

Restoring firm foundations

Strong Core Businesses with market-leading positions

Four cash generating businesses

Construction	Infrastructure Services		
Regional Buildings	**Highways**	**Utilities**	**Infrastructure**
			
#1 in regional building	#1 Highways maintenance	Leading market position	Leading market position
Based on long term frameworks	Based on long term frameworks	Based on long term frameworks	Based on long term frameworks

Simplifying the portfolio

Residential	Property	Environmental Services	Facilities Management
			
Sale progressing well	Reducing capital invested Evaluating options	Exiting the business	Restructuring for future sale

New operating structure

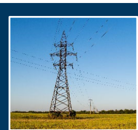
Focus on Group strengths

Construction → Regional Building

Infrastructure Services → Infrastructure

Infrastructure Services → Highways

Infrastructure Services → Utilities



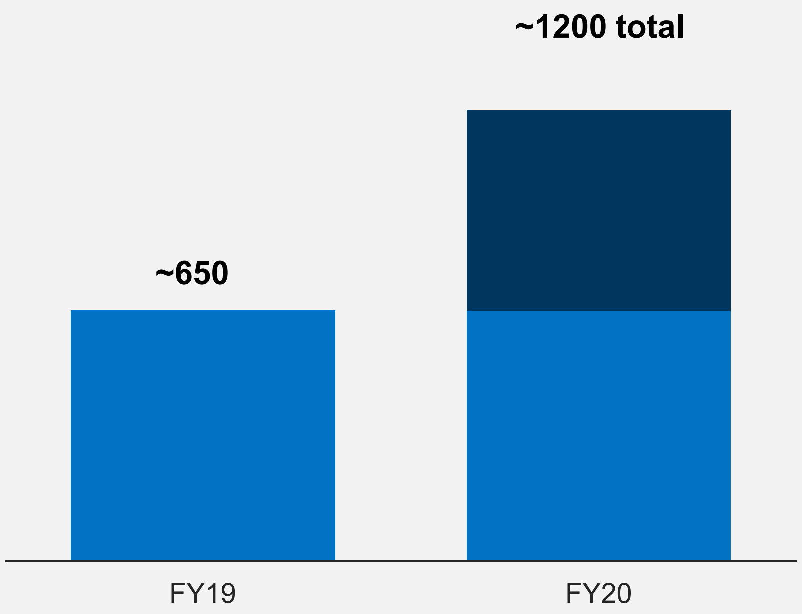
Other → Other

Key actions

- Reduction of management layers for core businesses
- Direct reporting line to CEO
- Leaner group centre with clear accountabilities

Accelerate Cost Reduction

Headcount reduction



FY19: Accelerated and expanded programme

- Fewer roles in the Centre
- Exit of 650 people

FY20

- Reduce centre overhead
  - 100 people left to date with clear visibility to target of 550
- Levers:
  - Devolving central functions to the businesses as appropriate
  - Rationalise Group estate

FPK will deliver £55m run-rate cost savings from 2021

Performance Excellence

Progressing Day 1 Strategic Imperatives:

1. Simplify & focus Kier ✓
2. Improve cash generation ✓
3. Strengthen balance sheet ✓

Embed our culture of Performance Excellence:

1. Performance centred leadership
2. Process management
3. Project execution
4. Cash management

Restoring Firm Foundations

Launching our culture of Performance Excellence

The Four Pillars

Performance Centred Leadership

- Clarified and strengthened leadership team roles
- Introducing Performance Centred Leadership
- Accelerating functional development

Process Management

- Introducing an Operational Framework, providing clear corporate governance
- Refreshing delegated authorities
- Clear, simplified policies and processes

Project Execution

- Continuing to win work of our choice
- Disciplined and transparent reporting
- Strengthened approach to risk management

Cash Management

- Accelerate cost reductions through FPK
- Disposal of non-core businesses
- Tighter supplier payment cycle

Momentum is building

Timeline for strategic actions (FY)

2019	2020	2021

Strategic review

Refocus core businesses on Construction and Infrastructure Services

Simplify the Group

Progress Kier Living disposal

Strengthen balance sheet through further disposals and reduced asset base

Improve cash generation

Performance Excellence

Summary and Outlook

- Difficult year
- Building firm foundations for the future
- New management team
- Decisive strategic actions taken refocusing Group strategy and structure
- Strong core businesses remain foundation of the Group strategy
- Sale of Kier Living progressing well
- Reshaping the Group to reduce indebtedness
- Restoring Kier to robust financial health

Appendix

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Reconciliation to new corporate structure

Revenue and Operating profit

	Order book £bn	Revenue £m	Operating profit £m	Operating margin %	ROCE %
Infrastructure Services	4.1	1,670.7	56.4	3.4%	
Buildings	5.1	1,882.7	62.4	3.3%	
Housing & Developments	0.2	939.8	55.5		16%
Corporate		1.2	(50.2)		
Group	9.4	4,494.4	124.1	2.8%	

Construction	3.3	1,864.3	67.3	3.6%	
Infrastructure Services	5.1	1,670.7	56.4	3.4%	
Other	1.0	959.4	0.4	0.0%	
Group	9.4	4,494.4	124.1	2.8%	

Technical Guidance

	FY20
Finance costs	Proportional with average net debt
Tax rate	c.19%
Pension contribution	Subject to March 2019 triennial valuation
Capex (incl. finance leases)	c.£30m-£35m
Regional Building	Demographic drivers
Infrastructure	Government investment
Utilities growth	AMP7; government regulation
Highways	Road Investment Strategy 2

[1] Divisional guidance break out on slide Reporting Structure slide.

IFRS 15

- IFRS 15 ‘Revenue from Contracts with Customers’ adopted in FY19
- IFRS 15 replaces IAS 18 ‘Revenue’ and IAS 11 ‘Construction Contracts’
- Timing impact only – it does not change the overall revenue, profit or cash generated over the life of the contract. No impact to cash flows or net debt
- £27.9m post tax released to the income statement in FY19, reflecting short-term nature of affected contracts

Opening reserve adjustments	£m
Revenue recognition	28.1
Third Party recoveries on an IAS 37 basis	26.0
De-recognition of variations on a contract in the Middle East	9.7
Disaggregation of performance obligations and other adjustments	3.4
Capitalised mobilisation costs	5.8
Less deferred tax credit	(12.4)
Total	**60.6**

Pensions

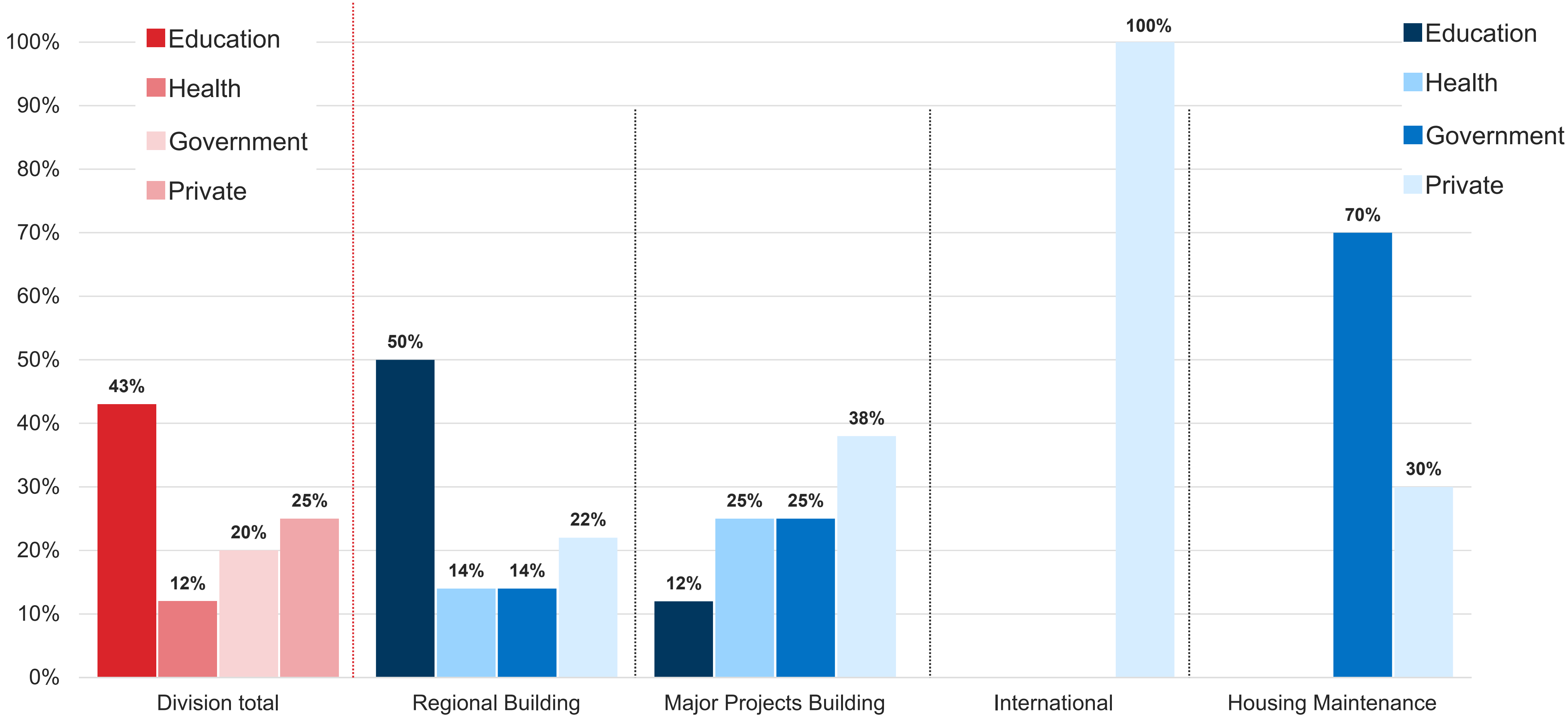
Strong performance with pension schemes now in surplus

£m	30 June 2019	30 June 2018	Change
Group Pension Schemes			
Market value of assets	1,789	1,681	108
Present value of liabilities	(1,770)	(1,673)	(97)
Asset / (liability) in the schemes	19	8	11
Deferred tax	(3)	(1)	(2)
Net pension asset / (liability)	16	7	9
Key assumptions:			
Discount rate	2.3%	2.8%	
Inflation rate – RPI	3.1%	3.0%	
Inflation rate – CPI	2.0%	1.9%	

Net pension surplus of £16m driven by asset gains and decreased liabilities due to PIE exercise

Triennial valuation as at March 2019

Construction sector distribution



Infrastructure Services sector distribution